

## Theme Based Audit on School Expenditure 2019-20

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<p><b>Summary:</b></p>	<p>This report summarises the outcomes of the Theme Based Audit on School Expenditure 2019/20, carried out during the Summer Term 2019, in a sample group of schools as part of the 2019/20 audit plan .</p> <p>Internal Audit gave an overall opinion of <b>Reasonable Assurance</b> in relation to the areas reviewed and, in general, adequate controls are found to be in place for the purchasing processes within schools to guard against fraudulent or improper use of public money and to ensure that they comply with legal and regulatory requirements.</p> <p>Within the sample of eight schools:</p> <ul style="list-style-type: none"> <li>• Six schools achieved Reasonable Assurance</li> <li>• Two schools achieved Partial Assurance</li> </ul>
<p><b>Significant Findings and Risks:</b></p>	<p>The Schools Forum is recommended to discuss the Significant Finding detailed below classed as “Priority 2” (“Important findings that need to be resolved by management”), and to consider the proposed actions shown in sections 2.4 and 2.5:</p> <p><i>Significant Finding</i></p> <ul style="list-style-type: none"> <li>• Purchase orders are not routinely raised for all relevant goods and services requested from contractors and suppliers. At six schools it was found that low levels of purchase orders are raised for planned expenditure.</li> </ul> <p><i>Risks</i></p> <ul style="list-style-type: none"> <li>• There is a reduced assurance of authorisation to spend. Illegitimate purchases may be made or budget overspends may occur due to lack of financial commitment via a purchase order until invoices are received.</li> <li>• Whilst there are some legitimate exemptions, if schools do not raise an order the following controls will be missing:             <ul style="list-style-type: none"> <li>○ Authorisation by the budget holder</li> <li>○ Evidence of an approved record to check the invoices back to</li> <li>○ A commitment on the finance system</li> <li>○ The binding to SCC’s terms and conditions.</li> </ul> </li> </ul>
<p><b>Reasons for Recommendations:</b></p>	<p>The Schools Forum has decision making and consultative responsibilities for various areas of school funding.</p>

<b>Links to Children and Young Peoples Plan:</b>	The Schools Budget supports the "Priorities: Building Skills for Life" aim within the Children and Young People's Plan 2019 - 2022.
<b>Financial Implications:</b>	This report relates to the whole Schools Budget.

## **1 Background**

**1.1** Schools manage substantial sums of public money and consequently require a robust control framework to ensure funds are safeguarded and also to ensure that best value is obtained. They are required to have adequate arrangements in place to guard against fraud and theft by staff, contractors and suppliers and this is one of the questions that make up the Schools Financial Value Standard (SFVS).

**1.2** The audit sought to verify the degree to which schools comply with local and regulatory requirements, there is a clear understanding of the requirements and whether arrangements are effective.

It was also decided to include two specific outcomes from the 2018/19 audit of Combatting Tax Evasion, in which it was found that :

- the majority of Construction Industry Scheme related invoices received by SCC are in respect of maintained schools, which therefore require school staff to have a reasonable understanding of the Scheme in order to ensure the correct treatment;
- a high proportion of the invoices for wage payments to workers or contractors who should be subject to tax and National Insurance deductions as per IR35 legislation are in respect of services engaged by maintained schools.

It was therefore agreed to test a sample of payments to suppliers and providers that fall under these two areas of legislation.

## **2 Detail of the Schools Expenditure 2019-20 audit**

**2.1** Individual school visits were carried out in eight schools - seven primary and one junior.

Visits were carried out during June and July 2019.

Each school received an individual report and the results of these were consolidated into a report for the Local Authority and Schools Forum providing an opinion of "Reasonable Assurance".

**2.2** The evaluation was based on evidence collected during visits, together with the key

documents and records requested prior to the audit visit.

The areas assessed were:

- Finance Policy and documented procedures covering all major purchasing requirements
- Purchase orders, invoices, authorisation, quotations and tenders, separation of duties
- Contracts
- Procurement Cards/Imprest Accounts (where held)
- Compliance with the Construction Industry Tax Scheme, payments made to individuals and IR35, and VAT requirements.

**2.3** As a result of the Schools Expenditure audit some good practice was identified:

- Procurement Cards and Imprest Funds were all found to be securely held;
- Authorisation of invoice payment batch headers was complete and timely and amounts to be paid were agreed;
- VAT was found to be accurately accounted for across all purchases tested.

**2.4** In addition to the one Priority 2 finding, there were five Priority 3 findings (“Finding that requires attention”) assessed as low corporate risk.

Details of these can be found in the copy of the final Audit report issued by SWAP to the Local Authority – appendix B

**2.5** It is recommended that the Local Authority takes the following actions:

- A report is presented to Schools Forum highlighting the issues, findings and recommendations for actions to be taken.
- A themed audit summary is uploaded to iPost after half term following the Schools Forum meeting, for all schools to access.
- The themed audit summary is brought to the attention of Business Managers and Finance Officers at the subsequent ADL Meetings.
- SSE – Governance Services Manager will share the themed audit summary with:
  - Governance boards at the next chairs’ meetings and on the service website.
  - Clerks, for minuting purposes, and half termly bulletin.
- The Model Finance Policy will be reviewed and enhanced in April 2020 highlighting the areas of concern:

- Governors to request purchase reports to check that transactions have been approved at the correct level and/or that 3 quotes have been obtained when appropriate.
- Governors' approval of purchases – appropriate levels of approval to be set for the size of the school, excluding invoices which are already part of a signed contract or have already been specifically included within the schools' approved budget plan.
- Telephone orders – though still discouraged, if these are used an order should be placed retrospectively if over £100.
- Governors to check contracts register annually to ensure it is complete.
- Clerks to ensure that the Business Interest register has been completed by all staff having a financial responsibility.
- Links to be provided to the Gov.uk website regarding Construction Industry Scheme (CIS).
- Provision of a summary of the CIS that schools can more easily understand and which can be included in the Model Finance Policy.

**2.6** The audit opinion of **Reasonable Assurance** on the adequacy of the internal control framework and its effectiveness of operation will be reported to the Audit Committee and will also form part of the information used to compile the Council's 'Corporate Governance Statement' published with the annual accounts.

### **3 Implications – Financial and Other**

**3.1** If there are inadequate purchasing controls in place there is a risk of:

- Loss of public money as a result of fraud or misappropriation, or failure to secure value for money.
- Penalties may be incurred due to non-compliance with regulatory and statutory requirements.

### **4 Background Papers**

**4.1** Financial Management Scheme 2018 and 2019

**4.2** Model Finance Policy 2018 and 2019

**4.3** Combating Tax Evasion audit 2018-19

**4.4** SCC Contract Standing Orders - B

**Note:** For sight of individual background papers please contact the report author.

## **5 Audit Framework Definitions**

**5.1** See Appendix A

Audit Framework and Definitions			
<b>Assurance Definitions</b>			
<b>None</b>		The areas reviewed were found to be inadequately controlled. Risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.	
<b>Partial</b>		In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed, and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.	
<b>Reasonable</b>		Most of the areas reviewed were found to be adequately controlled. Generally, risks are well managed, but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.	
<b>Substantial</b>		The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.	
<b>Definition of Corporate Risks</b>		<b>Categorisation of Recommendations</b>	
Risk	Reporting Implications	In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:	
<b>High</b>	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.	<b>Priority 1</b>	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
<b>Medium</b>	Issues which should be addressed by management in their areas of responsibility.	<b>Priority 2</b>	Important findings that need to be resolved by management.
<b>Low</b>	Issues of a minor nature or best practice where some improvement can be made.	<b>Priority 3</b>	Finding that requires attention.